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ABSTRACT

The state role in educational funding as a major educational policy issue is discussed in this digest. The school finance system debate has been stimulated by property tax issues, changing demographic and economic conditions, emphasis on qualitative improvement, and school restructuring. Implications for local administrators include increased accountability for equal distribution of quality teachers, facilities, and materials within districts, and aggressive participation to inform policy makers. (4 references) (LMI)

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Almost two decades have passed since the state role in funding schools became a major education policy issue. After years of dormancy, the controversy is heating up again. The evidence nationally is very thin, but what is available indicates that states have made little progress in reducing wealth-related expenditure disparities among school districts (Schwartz and Moskowitz 1988).

Over the last twenty-four months, nearly half of the states have been somehow engaged in debate about the fairness and/or constitutionality of their school finance systems. At last count, thirteen were engaged in or about to launch investigations of their funding formulas, usually at the behest of a legislative or executive branch task force. Eleven states are presently at various stages of involvement with the courts, ranging from early hearings to "pending decision" status in the state's highest court. (For a review of school finance litigation, see LaMorte 1989.)

Three state finance systems were ruled unconstitutional early in the 1980s (Arkansas, West Virginia, and Wyoming) and four in the last twenty-four months (Kentucky, Montana, New Jersey, and Texas). It seems that America has yet to break the link between local wealth and the quality of a child's education.

What Issues Surround the Property Tax?

A key source of revenue for the public schools, the local property tax is the subject of regular debate in school finance. It is part of the general concern over sources of revenue for the public schools. Some say that property taxes should be abandoned as a source of revenue for schools. The argument is that taxing property is inefficient and unfair, as the value of one's home or business is not realized until it is sold. Property tax opponents suggest that income is the more appropriate measure of local wealth; it is what people use to pay their taxes.

Proponents of local property taxes call for the improved administration of this tax. Property taxes, it is argued, are as good a measure of fiscal capacity as income or any other measure of wealth, perhaps even easier to measure. Because property taxes are much less subject to short-term fluctuations in economic activity than sales or income tax receipts, they are considered reliable as a source of revenue for schools. Proponents further argue that property tax circuit breakers can be used to prevent an unfair burden on the poor or fixed income taxpayers. Expect the debate over appropriate sources of revenue for schools to continue. If school costs rise significantly during the 1990s, it will place continuing pressure on policy makers at the state and local levels to find new revenue for schools.

What Are Other Reasons for the Focus on School Finance?

The property tax is not the only reason for this renewed interest in school finance at the state level. Most state aid systems are old, the majority of the basic formulas for distributing aid to school districts having been designed and implemented in the early to mid-1970s. As we enter the 1990s, much has changed. Enrollments—stable in the early 1970s and declining during the middle 1970s and 1980s—are now growing again in some parts of the country. Land values, particularly in agricultural states, are stable to declining, placing upward pressure on local tax rates. The program and service requirements of schools have changed also, particularly regarding the programs and services associated with various special student populations. There are many reasons why school funding formulas might need significant reform to bring them in line with the times.

A decade of emphasis on making qualitative improvements in the schools at the state and local levels may also explain the new focus on school finance. Efforts to raise graduation requirements, mandate expanded student testing and assessment, increase teacher salaries, and require new services for students (for example, early childhood, dropout prevention, employment training) have amplified concerns about the cost of education and highlighted existing differences in the resources from district to district.

Fuhrman, Clune, and Elmore (1988) concluded, in their review of state education reform initiatives, that the performance of state school finance systems (for example, their ability to provide equal resources) affects local ability to respond to education reform initiatives. Rosenholtz's (1988) research on initiatives designed to establish minimum competency standards for students and career ladder programs for teachers confirms that money is an important factor in the successful implementation of these initiatives. Research evidence, limited though it may be, suggests that providing adequate revenue in an equalized way is key to school improvement initiatives around the country.

How Does School Restructuring Affect School Finance?

Complicating matters are several important themes running through the restructuring debate of the late 1980s and early 1990s. One has to do with *enhancing the institutional competence of schools*. This appears to mean a number of things — fostering the professional growth of teachers, providing time and structures that allow school staff to pay more attention to problems of teaching and learning, and allowing school staff, particularly teachers, to play a greater role in the day-to-day operation of schools.

Another theme has to do with *decision-making and governance in schools*. A popular viewpoint is that schools are in the best position to decide how to use the resources at their disposal to meet school- and system-wide objectives. Schools should decide which services to purchase (such as testing or curriculum specialists) from the central district or from other sources and should determine their staffing needs and how to fill them. A key finance issue is the "fair share" of resources (in dollars) that are controlled at the school site. Should building administrators receive the monetary equivalent of their current staff allocations? How are the relative needs of schools determined and quantified so decentralization does not create intradistrict disparities in resources and opportunity?

Finally, restructuring seems to involve a basic *shift in the incentive structure that drives behavior and resource allocation in schools*. For most reformers, this means developing new forms of and mechanisms for accountability. It has been suggested that schools should develop assessment strategies designed to measure problem solving and cognitive development. Rewards and sanctions, it is argued, should be linked to these "robust" outcome measures so that the consequences of success and failure are clear and direct. There are many questions. How many of the rewards and sanctions involve money? If the high achieving schools are wealthy and the low achieving schools poor, how is the wealth-related difference in performance to be addressed — through rewards and sanctions or structural change in the finance formula? What are the costs of school-centered assessment instruments and strategies?

What Are Implications for Local Policy Makers?

There is little doubt that the traditional school finance equity issues — measuring educational needs and assessing the relative fiscal capacity of school districts — will receive attention in the 1990s as policy makers calibrate their finance systems to changing economic and demographic conditions and accommodate the new programs and standards implemented during the 1980s. School boards and administrators will need to assist state policy makers in appropriately defining the needs of schools in the new decade, helping to translate these needs into mechanisms that create fair and adequate distributions of resources.

Of course, education policy making in the 1980s has created new equity issues. We can expect policy makers at all levels to be held accountable not just for providing equal dollars per child but for (1) the distribution of excellent (master/lead) teachers; (2) access to curricular offerings and instructional experiences; and (3) the availability of high-quality facilities and instructional materials. When patterns emerge between inequities in these resources and variables like district size, location, student characteristics, and wealth, state school finance laws are sure to be challenged. Local officials must pay attention to the impact of these reform initiatives *within* district boundaries. Unequal distributions among schools within districts may also be challenged.

Finally, school boards and administrators must participate aggressively in the continuing debate on restructuring and education accountability. Recent developments in states like Kentucky, New Jersey, and Texas underscore the growing link between the allocation of resources and the use of those resources at the local level. Pressure to relate money to student outcomes may grow. Efforts to redefine power and authority relationships governing the allocation and use of resources will continue under the heading of "site-based decision-making" or related initiatives. The traditional school finance linkages between funding and local practice are already changing. Observe how fully funded state programs/mandates are giving way to "fiscal incentives" and other approaches for sharing fiscal responsibility for state education policy goals. Because many districts felt constrained by undue regulations, it is now popular to grant flexibility in the use of existing funds in lieu of providing "new" money. In the absence of clear knowledge about the success or appropriate use of these strategies, it behooves local leaders to frame local priorities carefully and to use skill in interpreting the objectives of state policy makers as they legislate in this area.

What Questions Still Need to Be Resolved?

The current policy debate in education does raise some interesting questions in school finance:

What are the costs of restructuring the public schools? Can the schools be substantially improved without a significant infusion of resources? How do school finance formulas interact with attempts to manage resources at the school site? Will restructuring and site-based management force states to develop a new generation of funding mechanisms? To what extent can incentives and sanctions be used in a state funding formula?

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